

# **ALAMEDA COUNTY**

Audit Report

## **HANDICAPPED AND DISABLED STUDENTS PROGRAM**

Chapter 1747, Statutes of 1984, and  
Chapter 1274, Statutes of 1985

*July 1, 2000, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

October 2004



**STEVE WESTLY**  
**California State Controller**

October 8, 2004

Marye L. Thomas, M.D., Director  
Department of Behavioral Health Care Services  
Alameda County  
2000 Embarcadero Cove, Suite 400  
Oakland, CA 94606

Dear Dr. Thomas:

The State Controller's Office has completed an audit of the claims filed by Alameda County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002.

The county claimed \$13,364,241 (\$13,365,241 in costs less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that \$9,663,443 is allowable and \$3,700,798 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible treatment costs and unsupported administrative costs. The county was paid \$3,856,325. Allowable costs claimed in excess of the amount paid, totaling \$5,807,118, will be paid by the State based upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/jj

cc: (See page 2)

cc: The Honorable Patrick O'Connell

Auditor-Controller

Alameda County

Sherie Peterson

Auditor-Controller's Office

Alameda County

Marlene Gold

Director of Financial Services

Department of Behavioral Health Care Services

Alameda County

James Tilton, Program Budget Manager

Corrections and General Government

Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Alameda County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was October 31, 2003.

The county claimed \$13,364,241 (\$13,365,241 in costs less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that \$9,663,443 is allowable and \$3,700,798 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible treatment costs and unsupported administrative costs. The county was paid \$3,856,325. Allowable costs claimed in excess of the amount paid, totaling \$5,807,118, will be paid by the State based on available appropriations.

## Background

Chapter 26 of the *Government Code*, commencing with Section 7570, and *Welfare and Institutions Code* Section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate on the expanded Individualized Education Program (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (COSM) determined that Chapter 1747, Statutes of 1984, resulted in state-mandated costs that are reimbursable pursuant to *Government Code* Section 17561.

*Parameters and Guidelines*, adopted by COSM on August 22, 1991 (and amended on August 29, 1996), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist local agencies in claiming reimbursable costs.

*Parameters and Guidelines* states that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by *Welfare and Institutions Code* Section 17600 et seq. (realignment funds). As a result, allowable mental health treatment costs for Alameda County increased by \$7,027,896 during the audit period (\$2,996,007 for FY 2000-01 and \$4,031,889 for FY 2001-02).

## Objective, Scope, and Methodology

Our audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002.

Our auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided for under *Government Code* Section 17558.5. We did not audit the county's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the county's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Alameda County claimed \$13,364,241 (\$13,365,241 in costs less a \$1,000 penalty for filing late) for costs of the legislatively mandated Handicapped and Disabled Students Program. The audit disclosed that \$9,663,443 is allowable and \$3,700,798 is unallowable.

For FY 2000-01, the county was not paid by the State. The audit disclosed that \$4,883,439 is allowable. That amount will be paid by the State based upon available appropriations.

For FY 2001-02, the county was paid \$3,856,325 by the State. The audit disclosed that \$4,780,004 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$923,679, will be paid by the State based upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on June 11, 2004. Marlene Gold, Director of Finance in the county's Department of Behavioral Health Care Services, responded by letter dated July 14, 2004, disagreeing with the audit results. The county's response is included as an attachment to this final audit report.

**Restricted Use**

This report is solely for the information and use of Alameda County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

**Schedule 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 2000, through June 30, 2001</u>				
Assessment and case management costs	\$ 1,539,387	\$ 1,539,387	\$ —	
Administrative costs	193,920	250,612	56,692	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(340,141)	(340,141)	—	
EPSDT and county matching funds	—	—	—	
Realignment funds	—	—	—	
State categorical funds	<u>(44,526)</u>	<u>(44,526)</u>	<u>—</u>	
Net assessment and case management costs	<u>1,348,640</u>	<u>1,405,332</u>	<u>56,692</u>	
Treatment costs	11,734,503	10,958,711	(775,792)	Finding 1
Administrative costs	1,478,223	268,457	(1,209,766)	Findings 1, 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(3,024,152)	(2,858,308)	165,844	Finding 1
EPSDT and county matching funds	(3,364,293)	(3,198,449)	165,844	Finding 1
Realignment funds	(1,457,901)	(1,351,890)	106,011	Finding 1
State categorical funds	<u>(339,414)</u>	<u>(339,414)</u>	<u>—</u>	
Net treatment costs	<u>5,026,966</u>	<u>3,479,107</u>	<u>(1,547,859)</u>	
Total costs	6,375,606	4,884,439	(1,491,167)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total reimbursable costs	<u>\$ 6,374,606</u>	4,883,439	<u>\$(1,491,167)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,883,439</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ 1,104,493	\$ 1,104,493	\$ —	
Administrative costs	139,136	142,480	3,344	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(221,734)	(501,448)	(279,714)	Finding 3
EPSDT and county matching funds	—	(501,448)	(501,448)	Finding 3
Realignment funds	—	(127,719)	(127,719)	Finding 3
State categorical funds	<u>(27,227)</u>	<u>(27,227)</u>	<u>—</u>	
Net assessment and case management costs	<u>994,668</u>	<u>89,131</u>	<u>(905,537)</u>	
Treatment costs	14,470,308	13,730,882	(739,426)	Finding 1
Administrative costs	1,822,859	204,245	(1,618,614)	Findings 1, 2



**Schedule 1 (continued)**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference<sup>1</sup></u>
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
Offsetting revenues: (continued)				
Short-Doyle/Medi-Cal funds (FFP)	(4,130,994)	(3,820,642)	310,352	Findings 1, 3
EPSDT and county matching funds	(4,130,994)	(3,942,784)	188,210	Finding 1
Realignment funds	(1,679,499)	(1,124,115)	555,384	Findings 1, 3
State categorical funds	<u>(356,713)</u>	<u>(356,713)</u>	<u>—</u>	
Net treatment costs	<u>5,994,967</u>	<u>4,690,873</u>	<u>(1,304,094)</u>	
Total costs	6,989,635	4,780,004	(2,209,631)	
Less late penalty	<u>—</u>	<u>—</u>	<u>—</u>	
Total reimbursable costs	<u>\$ 6,989,635</u>	4,780,004	<u>\$(2,209,631)</u>	
Less amount paid by the State		<u>(3,856,325)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 923,679</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Assessment and case management costs	\$ 2,643,880	\$ 2,643,880	\$ —	
Administrative costs	333,056	393,092	60,036	Finding 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(561,875)	(841,589)	(279,714)	Finding 3
EPSDT and county matching funds	—	(501,448)	(501,448)	Finding 3
Realignment funds	—	(127,719)	(127,719)	Finding 3
State categorical funds	<u>(71,753)</u>	<u>(71,753)</u>	<u>—</u>	
Net assessment and case management costs	<u>2,343,308</u>	<u>1,494,463</u>	<u>(848,845)</u>	
Treatment costs	26,204,811	24,689,593	(1,515,218)	Finding 1
Administrative costs	3,301,082	472,702	(2,828,380)	Findings 1, 2
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	(7,155,146)	(6,678,950)	476,196	Findings 1, 3
EPSDT and county matching funds	(7,495,287)	(7,141,233)	354,054	Finding 1
Realignment funds	(3,137,400)	(2,476,005)	661,395	Findings 1, 3
State categorical funds	<u>(696,127)</u>	<u>(696,127)</u>	<u>—</u>	
Net treatment costs	<u>11,021,933</u>	<u>8,169,980</u>	<u>(2,851,953)</u>	
Total costs	13,365,241	9,664,443	(3,700,798)	
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total reimbursable costs	<u>\$ 13,364,241</u>	9,663,443	<u>\$(3,700,798)</u>	
Less amount paid by the State		<u>(3,856,325)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,807,118</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## FINDING 1— Ineligible treatment costs

The county claimed various treatment costs that are ineligible. The county claimed costs for medication support, crisis intervention, and inpatient services, which are not reimbursable under program guidelines.

*Parameters and Guidelines* for the mandated program specifies that only the following treatment services are reimbursable: individual therapy; collateral therapy and contacts; group therapy; day treatment; and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

As a result, ineligible treatment costs and related administrative costs and revenue offsets have been adjusted as follows:

		Fiscal Year		
		2000-01	2001-02	Total
Treatment costs:				
Medication support		\$ (642,013)	\$ (491,638)	\$(1,133,651)
Crisis intervention		(56,295)	(86,662)	(142,957)
Inpatient services		<u>(77,484)</u>	<u>(161,126)</u>	<u>(238,610)</u>
Total ineligible treatment costs		(775,792)	(739,426)	(1,515,218)
Administrative costs		(97,750)	(93,168)	(190,918)
Offsetting revenues:				
Short-Doyle/Medi-Cal funds		165,844	188,210	354,054
Federal				
Financial Participation (FFP)				
EPSDT and county matching funds		165,844	188,210	354,054
Realignment funds		<u>106,011</u>	<u>87,045</u>	<u>193,056</u>
Audit adjustment		<u>\$ (435,843)</u>	<u>\$ (369,129)</u>	<u>\$ (804,972)</u>

### Recommendation

The county should ensure that costs claimed are eligible increased costs incurred as a result of the mandate.

### County's Response

The county disagreed with the finding, as summarized below.

### **Medication Support and Crisis Intervention**

The county stated that the *Parameters and Guidelines* used by the SCO auditor as the basis of the finding is outdated and does not reflect the changes that were clarified in AB 2781 (Chapter 1167, Statutes of 2002). That legislation clarifies the fact that all other mental health services, which includes medication support and crisis intervention costs, are eligible for reimbursement. That legislation specifies that counties are eligible for 100% reimbursement of the AB 3632 related mental health

services. Therefore, the county does not agree that medication support and crisis intervention services are not reimbursable under the program guidelines. Currently, COSM is considering revisions to the current outdated *Parameters and Guidelines*.

### **Inpatient Services**

The county stated that it did not include inpatient services on its claims. It stated that our auditor categorized some residential treatment services as inpatient services. The California Department of Mental Health categorizes both residential treatment and inpatient services under the same mode of service code (mode 05). *Parameters and Guidelines* states that the mental health portion of residential treatment in excess of the California Department of Social Services payment for residential placement is reimbursable.

### **SCO's Comment**

The finding and recommendation remain unchanged.

### **Medication Support and Crisis Intervention**

The provisions of AB 2781 do not yet correspond to *Parameters and Guidelines*. Therefore, as stated in the finding above, these services are not reimbursable at this time.

Reimbursement of these costs would be dependent on COSM's adoption of proposed amendments to *Parameters and Guidelines*. Based on the dates that the activities were incorporated into proposed amendments, we believe that medication monitoring would be reimbursable beginning with FY 2001-02, and crisis intervention would be reimbursable beginning with FY 2002-03, if adopted.

### **Inpatient Services**

The services questioned by our auditor were the following:

- Code 05-40 Adult Crisis Residential
- Code 05-60 Child Crisis Residential
- Code 05-65 Adult Residential

Services to adults and crisis services are not eligible for reimbursement under *Parameters and Guidelines*.

**FINDING 2—  
Claimed  
administrative costs  
unsupported**

The county claimed administrative costs that were not supported by its accounting records or its annual cost reports submitted to the California Department of Mental Health. The county applied an administrative cost rate to contract provider costs even though the base on which the rate was computed excluded contract provider costs.

*Parameters and Guidelines* specifies that only actual increased costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

Our auditor recomputed the administrative cost rate based on amounts documented in the county's annual cost reports, and adjusted claimed administrative costs as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Administrative costs:			
Assessment and case management	\$ 56,692	\$ 3,344	\$ 60,036
Treatment	<u>(1,112,016)</u>	<u>(1,525,446)</u>	<u>(2,637,462)</u>
Audit adjustment	<u><u>\$(1,055,324)</u></u>	<u><u>\$(1,522,102)</u></u>	<u><u>\$(2,577,426)</u></u>

**Recommendation**

The county should ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

**County's Response**

The county agreed that the methodology used to calculate administrative costs on its claims was faulty. But the calculation included in the audit report grossly understated administrative costs. The county requested that administrative costs be recalculated for both assessment/case management and treatment costs using a methodology agreeable to both the State and the county.

**SCO's Comment**

Based on further review of the adjustments made to administrative costs in the draft report, we determined that utilization and Review costs should have been classified as indirect rather than direct costs in our auditor's computation. As a result, we have increased the FY 2000-01 indirect cost rate from 14.17% to 16.28%, and the FY 2001-02 rate from 10.66% to 12.90%. The audit adjustments reflected in the finding above have been revised to reflect these updated percentages. We furnished the county with copies of our auditor's working papers supporting this adjustment.

These indirect cost rates apply to both assessment/case management and treatment costs. The adjustment to administrative costs related to treatment costs is larger than that for assessment/case management (1) because of the adjustment to claimed treatment costs in Finding 1 above and (2) because a large portion of treatment costs claimed is made up of private contractor services to which administrative costs do not apply.

**FINDING 3—  
Revenue offsets  
understated**

The county understated revenue offsets for FY 2001-02 by \$318,400 (\$249,897 in assessment and case management costs, and \$68,503 in treatment costs). The understatement occurred because revenue offsets reported by the county did not agree with the documentation supporting the claim.

*Parameters and Guidelines* specifies that any direct payments (categorical funds) received from the State that are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be deducted from the claims.

As a result, claimed revenue offsets have been adjusted as follows:

	Fiscal Year <u>2001-02</u>
Offsetting revenues:	
Assessment and case management:	
Short-Doyle/Medi-Cal funds (FFP)	\$ (279,714)
EPSDT and county matching funds	(501,448)
Realignment funds	<u>(127,719)</u>
Total assessment and case management	<u>(908,881)</u>
Treatment:	
Short-Doyle/Medi-Cal funds (FFP)	122,142
EPSDT and county matching funds	—
Realignment funds	<u>468,339</u>
Total treatment	<u>590,481</u>
Total audit adjustment	<u>\$ (318,400)</u>

**Recommendation**

The county should ensure that all applicable reimbursements received are offset against costs claimed.

**County's Response**

At the time of filing the claims for FY 00/01 and FY 01/02, Alameda County's understanding of the regulations requires (1) Medi-Cal FFP and county match requirement (including Realignment or EPSDT) and (2) all categorical funds to be offset from the total cost of services. It was Alameda County's understanding at the time the claim was prepared that a prorated share of Realignment should also be offset from the total cost, as well as the match to Medi-Cal FFP. This understanding has changed based on the review of the P&G's which states, "the scope of the mandate is one hundred (100) percent reimbursement, except that for individuals billed to Medi-Cal only, the Federal Financing Participation portion (FFP) for these activities should be deducted from reimbursable activities not subject to the Short-Doyle Act." And the clarification is given in the State's Audit Report, "Furthermore, this legislation states that for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code Section 17600 et seq. (realignment funds). With this being said, realignment funds in the amount of \$28,163 for

assessment and case management and \$246,641 for treatment, should not be included in the offset. The county would like to review the Controller's work papers to clarify this issue.

SCO's Comment

The finding and recommendation remain unchanged. As stated in the finding above, the claim did not agree with the worksheets the county prepared for claim preparation purposes. The consultant who prepared the claim omitted some of the applicable revenue offsets. Our auditor made no changes to the percentages or sources of revenues identified on the county's worksheets. Although the county may have had some latitude in how it offset revenues, the time has lapsed for filing an amended claim.

Based on further review of these revenue offsets, we have revised the distribution of the offsets between assessment/case management and treatment costs. However, the total audit adjustment remains the same. This revised distribution is reflected in the finding above. We furnished the county with copies of our auditor's working papers supporting this adjustment.

**Attachment—  
County's Response to  
Draft Audit Report**

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ALCOHOL, DRUG & MENTAL HEALTH SERVICES  
MARYE L. THOMAS, M.D., DIRECTOR

2000 Embarcadero Cove, Suite 302  
Oakland, California 94606  
(510) 567-8100

July 14, 2004

California State Controller  
Compliance Audits Bureau  
Division of Audits  
P. O. Box 942850  
Sacramento, CA 94250-5874

ATTENTION: Jim L. Spano, Chief

REFERENCE: Handicapped and Disabled Students Program  
Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985  
Period July 1, 2000 through June 30, 2002

In response to your department's letter of June 11, 2004, Alameda County has several concerns regarding the above referenced Handicapped and Disabled Students Program audit which are outlined below. All during the audit and at the exit conference many of the concerns were discussed, but the county's opinion has not been reflected in the audit findings.

**FINDING 1 – Ineligible Treatment Costs:**

The Controller alleges the county claimed various treatment cost that are ineligible. The county claimed costs for medication support, crisis intervention, and inpatient services, which the Controller states are not reimbursable under program guidelines. As a result, the Controller is disallowing \$1,515,218 for treatment costs for FY 00-01 and 01-02.

**RESPONSE TO FINDING 1:**

The Parameters and Guidelines used by the Controller's auditor on which it bases its findings are outdated and do not reflect the changes that were clarified in AB 2781 of the 2002 legislative session. We believe that legislation clarifies the fact that all other mental health services, which includes crisis intervention costs, are eligible for reimbursement. That legislation specifies that counties are eligible for 100% reimbursement of the "3632" related mental health services. Therefore, Alameda County does not agree that medication support and crisis intervention services are not reimbursable under the program guidelines. Even when applying the outdated, or more narrow, Parameter and Guidelines (P & G's), costs related to mental health services rendered under the Short-Doyle Act are claimable. The Short-Doyle Act, which was essentially repealed by the Bronzan-McCorquodale Program Re-alignment legislation in 1991, included both medication support and crisis intervention. When an Individual Education Program (IEP) is written medication support can be a critical component of the child meeting the goals of the IEP. Crisis Intervention is another critical component, as the service's name indicates Crisis Intervention is an unpredictable service, provided only as needed.

In other words, though the Short Doyle Act was repealed on July 1, 1991, it is believed that medication and crisis intervention were intended to be eligible components of the Handicapped and Disabled mandate reimbursement claim. AB 2781 was enacted to clarify the eligibility of these costs. It did not make changes to what was eligible, but just clarified the law beginning in '99'. Currently the Commission on State Mandates is considering revisions to the current outdated parameters and guidelines. The following are among the issues being addressed in the amendment of the Parameters and Guidelines.





Regarding preparing reimbursement claims for psychotherapy and other mental health services required by Chapter 26.5, Section 38 of Chapter 1167, Statutes of 2002 amended Section 5701.3 of the Welfare and Institutions Code to provide that:<sup>1</sup>

“Consistent with the annual Budget Act, this chapter shall not affect the responsibility of the state to fund psychotherapy and other mental health services required by Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code, and the state shall reimburse counties for all allowable costs incurred by counties in providing services pursuant to that chapter. The reimbursement provided pursuant to this section for purposes of Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of Government Code shall be provided by the state through an appropriation included in either the annual Budget Act or other statute. Counties shall continue to receive reimbursement from specifically appropriated funds for costs necessarily incurred in providing psychotherapy and other mental health services in accordance with this chapter. For reimbursement claims for services delivered in the 2001-2002 fiscal year and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Chapter 6 (commencing with Section 17600) of Part 5 of Division 9.”

Except for Chapter 26.5 psychotherapy and other mental health service costs funded under State categorical appropriations, counties are entitled to 100% reimbursement of their Chapter 26.5 service costs.

Regarding auditing claims for costs incurred during 2000-01 and prior fiscal years, Section 41 of Chapter 1167, Statutes of 2002 provides that:<sup>2</sup>

“Notwithstanding any other provision of law, with respect to the handicapped and disabled students stat-mandated local program, county reimbursement claims submitted to the Controller for reimbursement for services associated with providing, pursuant to Chapter 26.5 (commencing with Section 7570) of Division 7 of Title 1 of the Government Code, allowable mental health treatment services required by an individualized education program in fiscal years up to and including the 2000-01 fiscal year are not subject to dispute by the Controller’s office regarding the percentage of reimbursement claimed by any county.”

AB 2781 was adopted specifically to address the Controller audits and to provide counties one hundred percent of its “3632” costs.

***Inpatient Services Disallowance:***

The Controller is alleging that the inpatient services claimed by the county are not reimbursable under program guidelines. The Controller is recommending a disallowance of \$77,484 for 2000-01 and \$161,126 for 2001-02.

***Response to Disallowance:***

Alameda County did not include inpatient services in the claim. In researching this issue it appears the auditor categorized some residential treatment services as inpatient. The State Department of Mental Health categorizes both Residential Treatment and Inpatient Services under the same mode of service (Mode 05). The P & G’s state Mental Health portion of residential treatment in excess of the State Department of Social Services payment for residential placement is claimable.

<sup>1</sup> Section 38 is found on page 39 of the Stanislaus County filing referenced above.

<sup>2</sup> Section 41 is found on page 40 of the Stanislaus County filing referenced above.

## **FINDING 2 – Claimed Administrative Costs Unsupported:**

The Controller alleges that the county claimed administrative costs not supported by accounting records or its annual cost reports. The Controller alleges that the county applied an administrative cost rate to contract provider costs even though the base on which the rate was computed excluded contract provider costs. The Controller recomputed the administrative cost rate based on amounts documented in the county's annual cost reports and is making a recommendation to disallow \$1,122,599 for FY 2000-01 and \$1,599,735 for FY 2001-02, a total of \$2,722,334.

### **RESPONSE TO FINDING 2:**

Alameda County does agree that the methodology used to calculate the administrative costs on the claims was faulty. But the calculation included in the audit report grossly understates the administrative cost. The administrative cost of this program averages around 11% - 12%. The audit report calculation for Assessment and Case Management cost is 11.27%, which seems accurate. But the calculation for Treatment Costs is only 1.53%, which is extremely low. Alameda County is requesting that the administrative cost be recalculated for both Assessment and Case Management Costs and Treatment Costs using a methodology agreeable to both the State and Alameda County which would minimally be the state approved default rate, 10%, for indirect costs.

In reference to the amended parameters and guidelines, which are under consideration by the Commission on State Mandates, direct administrative costs related to services required by a child's IEP is 100% reimbursable except that only 10% of the net cost of direct administrative costs related to services provided pursuant to a county's funded Section 5712 (a) program is reimbursable.<sup>3</sup>

## **FINDING 3 – Revenue Offset Understated:**

The Controller alleges that the county understated revenue offsets for FY 2001-02 by \$318,400 (\$249,897 in assessment and case management costs, and \$68,503 in treatments costs). The Controller alleges that this occurred because revenue offsets reported by the county did not agree with the documentation supporting the claim. As a result, the Controller's office is suggesting a disallowance in \$318,400 for FY 2001-02.

### **RESPONSE TO FINDING 3:**

At the time of filing the claims for FY 00/01 and FY 01/02, Alameda County's understanding of the regulations requires (1) Medi-Cal FFP and county match requirement (including Realignment or EPSDT) and (2) all categorical funds to be offset from the total cost of services. It was Alameda County's understanding at the time the claim was prepared that a prorated share of Realignment should also be offset from the total cost, as well as the match to Medi-Cal FFP. This understanding has changed based on the review of the P & G 's which states, "the scope of the mandate is one hundred (100) percent reimbursement, except that for individuals billed to Medi-Cal only, the Federal Financing Participation portion (FFP) for these activities should be deducted from reimbursable activities not subject to the Short-Doyle Act." And the clarification is given in the State's Audit Report, "Furthermore, this legislation states that for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code Section 17600 et seq. (realignment funds). With this being said, realignment funds in the amount of \$28,163 for assessment and case management and \$246,641 for treatment, should not be included in the offset. The county would like to review the Controller's work papers to clarify this issue.

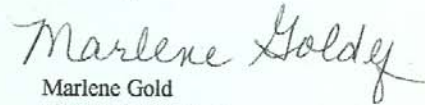
<sup>3</sup> Commission staff's [March 20, 2002] version of the paragraph is:

"Ten (10) percent of any direct administrative costs related to mental health treatment rendered under the Short-Doyle Act."



Based on the above comments Alameda County is requesting that the draft audit report be revised to incorporate these issues. I or my staff would be willing to meet again with your audit staff to clarify our concerns. If these issues cannot be agreed to, the County plans to take them to appeal. Please contact me or Leda Frediani, if you would like to discuss or we can set up a meeting to review in person. Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in cursive script that reads "Marlene Gold".

Marlene Gold  
Director of Finance

Enclosure

cc: Patrick O'Connell, Auditor-Controller  
Sherie Peterson, Auditor- Controller's Office  
Marye L. Thomas, MD., Director Behavioral Health Care

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